

Commodity Spotlight



USDA

Record U.S. Wheat Yield, Large Stocks Pressure Prices

Large back-to-back wheat production in the U.S. and globally, along with weak demand, is driving down prices. This contrasts starkly with the situation just 3 years ago, when low global stocks, modest U.S. production, and relatively strong demand elevated the season-average farm price to a record \$4.55 per bushel. This season, another large U.S. crop and the absence of any major weather problems in most other wheat-producing countries will lead to further gains in U.S. stocks. As a result, the U.S. season-average farm price may fail to break \$3 for the first time since 1990/91.

U.S. winter wheat plantings were down from a year earlier, suggesting a smaller crop in 1998. However, generally favorable weather, especially during harvest, will boost the winter wheat yield to a record 46.6 bushels per acre. State yield records will be set in Texas, Oklahoma, and Kansas. Coupled with a forecast higher spring wheat yield (including durum), the U.S. all-wheat yield is a forecast record 42.6 bushels per acre, breaking the 40-bushel barrier for the first time and up 2.9 bushels from last year's record.

Unlike last season, when the average price received by farmers peaked in September, monthly average prices received by

farmers are expected to follow a more normal seasonal pattern in 1998/99, hitting seasonal lows during harvest (June through September) then increasing to reflect carrying charges. Wheat prices will likely remain under pressure for this season, barring severe weather or disease problems in the Northern Plains through the end of harvest in September. Also, production prospects for corn and soybeans will have a significant impact on wheat prices.

Domestic feed and residual use of wheat is projected to increase sharply this season as lower wheat prices make wheat feeding of livestock more attractive. Even with the larger wheat feeding, ending stocks are forecast to hit 868 million bushels, the same as the 1990's high set in 1990/91. Since food use and exports will rise only modestly, wheat must compete as a feed grain to avoid further increases in ending stocks. U.S. exports in 1997/98 are expected to be up slightly as competition in the world market will continue to be keen because of large world supplies.

U.S. Wheat Supplies Expand To 11-Year High

Total U.S. wheat production in 1998/99 is forecast at 2.52 billion bushels, 9 percent above the USDA forecast in June 1998

and nearly unchanged from 1997/98. The record yield offsets lower harvested area in 1998—farmers switched to crops with higher expected returns and left more land fallow. With larger beginning stocks, however, and steady year-over-year imports, the U.S. wheat supply in 1998/99 (June-May) is forecast to rise 9 percent to 3.34 billion bushels, the highest level since 1987/88.

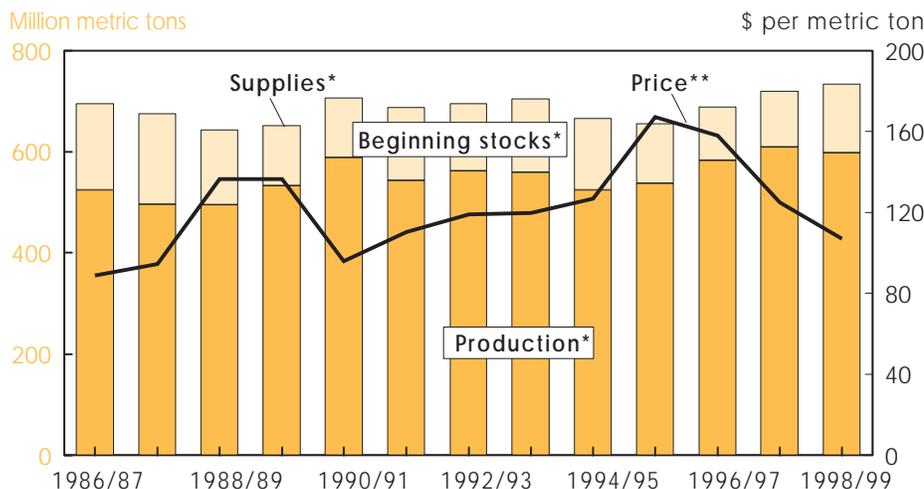
In the Southern Plains, a mild winter and warm spring weather have pushed the winter wheat harvest ahead of normal. As of July 12, 76 percent of the winter wheat crop was harvested, well above the 5-year average of 63 percent. Kansas was 98 percent completed, compared with an average of 82 percent. The Kansas Agricultural Statistics Service recently reported that protein is averaging 11.5 percent this year, compared with 11.8 percent last year and a 10-year average of 12.4 percent. Test weights have averaged 61.5 pounds per bushel, compared with 60.6 pounds last year and a 10-year average of 59.8 pounds. Since average protein content of hard red winter (HRW) wheat is reportedly below normal, price premiums for high-protein wheat will be strong this year.

Production prospects for HRW wheat continued to improve during June, especially in Kansas and Oklahoma, with yield forecasts based on July 1 conditions up 10 bushels and 4 bushels per acre, respectively, from the June forecasts. Total HRW output is forecast at 1.18 billion bushels, up 19 percent from the June forecast and 5 percent above 1997. HRW is used in a wide variety of products, particularly bread, and is expected to account for about 43 percent of total U.S. wheat use in 1998/99.

Soft red winter (SRW) wheat production is forecast at 451 million bushels in 1998, down 33 million bushels from last year. Quality is a major concern in the Corn Belt, particularly southern Illinois, where excessive rainfall during the spring will likely lead to scab and vomitoxin problems. These problems will be monitored closely as the new crop comes onto the market. SRW is forecast to account for about 18 percent of both U.S. wheat production and use.

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U.S. Wheat Prices Fall As World Supplies Build



1997/98 estimated; 1998/99 forecast.

*Aggregate of local marketing years. **U.S. season-average farm price for all wheat.

Economic Research Service, USDA

White winter wheat production (mostly soft wheat) is forecast at 268 million bushels, down 4 percent from 1997 due to fewer acres planted. Washington, Oregon, Idaho, and Michigan account for most U.S. white wheat production.

According to the June 30 *Acreage* report, farmers seeded 3.7 million acres to durum wheat, up 14 percent from last year but down 375,000 acres from the March planting intentions. Based on July 1 conditions, production of durum wheat in the U.S. is forecast to total 126 million bushels in 1998, up 46 percent from 1997. This production level, coupled with a sizable expansion of durum acreage in Canada and larger crops in the European Union (EU) and North Africa, will reduce the price premium over other wheat commanded by durum in recent years.

The “other” spring (non-durum) wheat crop is forecast to decline 11 percent in 1997/1998, primarily reflecting a smaller planted and harvested area as farmers either fallowed the land or shifted acres to durum wheat, soybeans, and other field crops. The June 30 *Acreage* report indicated that planted and harvested acreage of other spring wheat declined about 20 percent from last year. Farmers will harvest about 15 million acres in 1998. Based on July 1 conditions, production of other spring wheat is forecast to total 498 million bushels in 1998. The first survey-

based forecast indicates an average yield of 33.5 bushels per acre for other spring wheat, compared with 29.9 bushels last year. As of July 5, 69 percent of the spring wheat crop had already produced heads, compared with a 5-year average of 45 percent.

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World Wheat Yield Also a Record

World wheat production is expected to decline in 1998/99 as falling wheat prices discouraged plantings, but smaller total area will be partly offset by a forecast record global yield. Larger crops in some major importing countries are expected to reduce global imports. Only a small reduction in global stocks is expected. Wheat stocks in several key countries, especially China and the U.S., are relatively large.

Despite a 2-percent drop in area, world wheat production in 1998/99 is projected to reach 601 million tons, down only 1.5 percent from the previous year's record. Global area is forecast down 4.7 million hectares, mostly in the Newly Independent States of the former Soviet Union (NIS), the U.S., and Canada. NIS area is expected to drop 2.2 million hectares because of low prices, difficulty marketing last year's crop, and weather-delayed spring wheat planting. In the U.S. and Canada, relatively low prices have led to wheat area shifting

to other crops, especially oilseeds, decreasing 1.8 million and 0.8 million hectares. Argentina, Brazil, and Eastern Europe are also expected to shift area out of wheat and into more profitable crops. However, wheat area is expected to increase for several major producers, including the European Union (EU), Turkey, and Australia, where good profits in recent years have encouraged expansion.

A record average world wheat yield is expected in 1998/99, as generally favorable growing conditions for winter wheat have prevailed across the Northern Hemisphere. Only a few major wheat producers have harvested their 1998/99 wheat crops, so global yield projections are very tentative at this stage. However, most large wheat-producing countries are expected to have good yields. The global average is slightly higher than in 1997/98 when some countries, like China and Argentina, had exceptional yield growth, and others, such as North Africa and Australia, faced weather-driven yield losses.

World wheat supplies in 1998/99 are forecast up because beginning stocks are expected to increase by 22 million tons, offsetting production declines of 9 million tons. Wheat supplies in 1998/99 are expected to increase in China, the U.S., the EU, North Africa, Turkey, and Pakistan, while declining in Canada and Argentina.

Global beginning stocks in 1998/99 are forecast to reach 133 million tons, the largest since 1994/95. Stocks are building because of record world wheat production in 1997/98. Beginning stocks in 1998/99 are projected up in most of the world's largest wheat-producing nations, including China, the U.S., the EU, India, Eastern Europe, and the NIS. Canada is an exception, with sharply lower stocks than a year ago because of smaller 1997/98 production and strong exports.

World wheat consumption is expected to exceed production slightly, reaching 603 million tons, an increase of 15 million tons from the previous year. Major events around the world, such as the Asian macro-economic crisis, are not expected to create large shifts in human wheat consumption, and lower world wheat prices are unlikely to spur large increases in the use of wheat for food. However, use of

wheat as an animal feed is forecast to increase.

U.S. Export Share To Grow

Several key wheat-importing countries are expected to reduce or maintain imports unchanged because of increased domestic supplies and a reduced sense of urgency to hold wheat, given low world prices. China is expected to maintain minimal wheat imports. Even though wheat production in China is forecast down from last year's record, it is still expected to be larger than domestic consumption, adding to already burdensome stocks. Moreover, China's central government has announced it will not pay as much as it has in the past for provinces to purchase and store wheat. Combined with last year's record crop, the new policy has put downward pressure on wheat prices.

India's wheat production is also down from last year's record but larger than earlier anticipated. Given large government procurement and stocks, imports are expected to drop. Record yields and production are expected to cut import needs by Pakistan, a key market for U.S. white wheat. Production in North Africa is expected to rebound somewhat from devastating drought in 1997/98; imports, including durum, are expected to decline. The EU has increased its durum area, and yield prospects are much improved from last year. Thus, the EU is forecast to reduce imports. Eastern Europe and the NIS are not expected to increase imports, despite sharply lower production, because stocks are high, domestic demand is weak, and foreign exchange limited.

Wheat imports are expected to see robust growth in Latin America and the Middle East and a slight increase in Eastern Asia, but this growth will be more than offset by reductions in other markets.

Although world wheat trade is expected to decline 2 percent, U.S. wheat exports are forecast up 4 percent to 29 million tons in 1998/99 (July-June). Reduced exports from several competitors are expected to increase U.S. market share over the previous 2 years, but the share would remain below most other years.

Will the Asian Financial Crisis Affect 1998/99 U.S. Wheat Exports?

The Asian financial crisis is likely to have only a small effect on U.S. wheat exports in 1998/99. Only a small portion of the U.S. wheat export market is at stake in the countries most affected by the financial problems in Asia. South Korea, Thailand, Malaysia, the Philippines, and Indonesia together accounted for only 11 percent of U.S. wheat (grain) export volume in 1997/98. These countries also accounted for 12 percent of global wheat imports.

Despite stagnant or declining incomes, changes in per capita wheat consumption in the region are expected to be small. Most of the region's wheat imports are used for noodles or rolls and bread. In South Korea, Thailand, Malaysia, and even the Philippines, smaller incomes and higher prices (in local currencies) have not led to a shift by consumers away from noodles to rice, tubers, and other grains. (However, there probably is some shifting away from bread, rolls, and other baked goods.) In fact, Thailand and the Philippines are forecast to have record wheat imports in 1998/99, with lower priced feed wheat from Eastern Europe accounting for some of the increase in the Philippines. Malaysia's wheat imports are forecast near record. Large world supplies are lowering global wheat prices, making imports more affordable.

The net effect of the crisis on per capita food use of wheat is expected to be much smaller than for higher priced items like meat or the feed grains used to produce meat. Reduced incomes may actually prevent consumers in the region from shifting from staples, such as wheat-based products, to meats, fruits, and vegetables. And when GSM credits (U.S.-backed guarantees) are made available to a country like South Korea, with some of it earmarked for wheat, it is possible that the U.S. share of that wheat market could increase.

Because Australia dominates the Indonesian market (i.e., the U.S. market share is small), any change in imports would affect the U.S. indirectly as Australian grain becomes more available for other export markets. Indonesia's wheat consumption could be the most affected, because it is most seriously affected by economic and political problems, and has a relatively low per capita income level. Government intervention to import wheat and moderate domestic prices has prevented flour prices from rising as much as expected given changes in the exchange rate. Consequently, Indonesia's imports are projected to remain steady at 4 million tons in 1998/99.

In Japan, it is very unlikely that economic problems are having a measurable effect on wheat consumption. Income levels are high enough that eating noodles or rice is not a budget issue, but entirely a matter of taste and preference. Japan is a major wheat importer—the world's second largest in 1997/98.

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Canada's exports are expected to drop 22 percent because of reduced supplies, especially of high-protein bread wheat.

Canada's cutback should open opportunities for increased exports of U.S. hard red spring wheat and high-protein hard red winter wheat. Argentina is also expected to provide less competition for U.S. wheat, especially late in the U.S. marketing year, as reduced 1998/99 supplies in Argentina lead to lower exports.

The EU and Australia are expected to increase wheat production. The EU is expected to provide increased competi-

tion throughout the marketing year, especially in those markets seeking the cheapest wheat.

The mixed picture of competition for U.S. exports will tend to boost price spreads for U.S. farmers between wheat of different classes and protein levels. Reduced competition from Canada, for example, is likely to boost premiums for high-protein hard wheat while increased competition from the EU and Australia is likely to depress soft wheat prices.

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